

USAID/Panama

Annual Report

FY 2005

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Panama

Performance:

Background: While Panama is ranked as a middle income country with gross domestic product (GDP) of \$12.2 billion, an annual per capita income above \$3,500 (est. 2003), a literacy rate of 92% and population growth of only 1.4%, this ranking does hide some major problems. These include: serious under-development in several regions of the country, security challenges that threaten stability and impede sustained economic development, corruption, and the second worst income distribution in Latin America.

There are over 1.2 million poor in Panama. The incidence of poverty is 65% in rural Panama which is more than four times the 15% poor among the urban population. In the Indian reservations ("comarcas") and sectors with a predominantly indigenous population the incidence rises to 95%. In the rural areas of the western region of Panama 48% of the population live in poverty, 61% in the central region, and 78% in the eastern region of the country. These large pockets of poverty are a reflection of the dual economy in Panama where a progressive and relatively prosperous modern service sector co-exists next to a traditional and considerably poorer rural and agrarian sector.

Without sustained economic growth, the economic outlook in Panama is worrisome. The country lacks the necessary domestic savings to meet required investment levels for sustainable economic growth. Direct foreign investment continues to decline steadily from 13.1% in 1998 to 6.5% in 2003 as percentages of gross domestic product (GDP). There is double-digit unemployment. A serious threat to Panama's public finances exists due to the increasing actuarial deficit in the Social Security system that totaled \$2.7 billion in 2003. The external public debt/GDP ratio rose from 49 in 1999 to 51 in 2003. The government of Panama's external debt service equaled \$1.0 billion in 2003 which absorbed 50% of its budget revenues.

Panama faces several environmental challenges. Degradation of natural resources, especially water, is taking place at an accelerating and alarming pace. Natural forests lack proper management and protection. The unsustainable and frequently illegal exploitation, trade and use of timber, plants, wildlife and fisheries are widespread. Poor forest management and other inadequate land use practices have a negative impact on biodiversity, soil stability, coral reefs, mangroves and fisheries, all key indicators of a healthy ecosystem.

The sustainability of critical watersheds, especially the Panama Canal Watershed, and the environment in general is influenced by governance issues. In Panama, the lack of local empowerment and deficiencies in the environmental justice system stand in the way of local application and enforcement of environmental regulations. Rural residents have few alternatives for income generation; therefore many follow destructive land use practices and further stimulate urban migration.

The transition to democracy in Panama began in 1990 after 20 years of military dictatorship. While there has been significant progress towards a viable democracy, the process is still evolving. The country operates under a Constitution that grants the State strong executive powers and gives considerable immunity to legislators, judges, and high-ranking executive branch officials. There are no clear or accessible points of entry for citizens or civil society organizations to influence decision-making. Concepts of conflict of interest and transparency are virtually absent from political discourse and practices. In the meantime, press gag laws remain in effect while leadership of the judiciary reform movement falls to a nascent civil society.

U.S. Interests and Goals: The United States Government (USG) has economic and strategic interests in having Panama continue on a course that will reinforce democracy and lead to sustainable economic

development. The large volume of U.S. and world commerce moving through the Panama Canal, the expedient transit of military vessels, Panama's position as a regional banking center, and its proximity to Colombia underscore the importance of Panama to U.S. homeland security, narcotics control, democracy and economic prosperity.

The USAID Program in Panama contributes directly to the achievement of foreign policy goals in Panama and the region. The mission's Ruling Justly: More Responsive, Transparent Governance Strategic Objective supports the State-USAID performance goal that consists of "measures adopted to develop transparent and accountable democratic institutions, laws, and economic and political processes and practices." The Economic Freedom: Open Diversified, and Expanding Economy Strategic Objective supports two State-USAID performance goals: i) "Increased trade and investment achieved through market-opening international agreements and further integration of developing countries into the trading system" and ii) "Partnerships, initiatives, and implemented international treaties and agreements that protect the environment and promote resource management." Stabilizing the region and reducing the potential for regional conflict in Darien is critical, and strengthening communities in the area directly supports U.S. efforts to reduce possible cross-border effects due to civil unrest, terrorism, and drug trafficking from neighboring Colombia. As a barrier to foreign criminal and terrorist organizations, U.S. programs seek to alleviate poverty, especially in rural communities in the border province of Darien.

Donor Relations: USAID coordinates closely with other key donors to maximize complementarities and avoid duplication of efforts. This is the case whether working on the sustainable management of critical watersheds, trade capacity building, ruling justly, or community development in Darien. The mission shared information with the IDB, UNDP, FAO, JICA and GTZ regarding activities in the Panama Canal Watershed. The mission also undertook donor coordination and communications with the IDB in relation to the judiciary sector since the IDB is largest donor in this sector. USAID is the only donor involved in democracy and good governance activities. Donor coordination is equally important regarding on-going activities in Darien, especially with the IDB, FAO and UNDP.

Challenges: During the reporting period, corruption became a key development challenge facing Panamanians, rising in public opinion polls as second only to unemployment. There was a lack of political will to modernize the government, reform the justice system and foster transparency and accountability in government. Efforts by the government of Panama to curb corruption are more form than substance, such as passing a Freedom of Information Law which the previous administration smothered in impractical implementing regulations. USAID backed civil society organizations that pushed for repeal of these regulations. President Torrijos repealed them shortly after taking office in September 2004, thereby opening the possibility of broader access to public information. Should the absence of political will in the judiciary continue in the new administration, USAID will focus its program on the demand side, working with civil society, progressive government institutions, and selected local governments. Activities will support Civil Society Advocacy for Reform and Oversight of Government. By strengthening civil society's ability to conduct social auditing/monitoring activities, increasing public access to information, strengthening investigative reporting, and developing an anti-corruption strategy and action plan, activities will foster political will to reduce corruption and increase transparency of government activities and accountability.

The unsustainable use of natural resources continues to be a major challenge and a contributing factor to economic, social and political problems. Panama also faces formidable challenges in its economic readiness to take advantage of expanding trade opportunities under a bilateral free trade agreement with the United States that is being negotiated. There are too many legal requirements and trade constraints on business. Business constraints not only must be reduced, but the capacity of productive sectors and private businesses, particularly small and medium-sized enterprises, to compete in local, regional, and international markets must be strengthened. The mission developed its Country Plan that is fully consistent with the goal in the Central America and Mexico (CAM) Regional Strategy to promote "a more democratic and prosperous Central America and Mexico, sharing the benefits of trade-led growth broadly among their citizens."

Key Achievements: During FY 2004, the USAID program reached important milestones in financial

sustainability, policy changes and institutional changes that will lead to the achievement of the overall PCW Strategic Objective. Institutional stakeholders were strengthened through the institutional coordinating body (CICH) for the Panama Canal Watershed. The Chagres Fund that resulted from a \$10 million debt-for-nature swap under the Tropical Forest Conservation Act (TFCA) is now an operational, sustainable source of financing for the management of the Chagres National Park, an important protected area in the Panama Canal Watershed. The bridge program under Administration of Justice undertook activities leading to the new Democracy and Governance program under the Central America and Mexico Regional Strategy by consolidating the momentum gained in the AOJ program and paving the way to greater transparency and accountability in government. Stronger community organizations, improvements of small social and productive infrastructure and increased links to local institutions strengthened selected Darien communities.

1. Sustainable Management of the Panama Canal Watershed and Buffer Areas: The \$5.0 million Incentive Fund is fully operational. The Panama Canal Authority (ACP) signed a management contract with a local non-governmental organization (NGO) to administer their \$2.5 million contribution to the Incentive Fund. Disbursement of these funds for pilot activities in the PCW began in FY 2004. This is a key alliance that USAID has and one that is providing significant cash to protect the Canal watershed. The financing mechanism is an important step to achieving financial sustainability for watershed management in the PCW. Activities involving policy change play a central role in the activities in selected pilot sub-watersheds. During the reporting period, demonstration activities and the possibility of policy change focused on water and sanitation, sustainable agriculture and cattle ranching. In each one of these sectors, policy reforms are under consideration by the authorities.

2. Improved Governance and Judicial Reform: Civil society consolidated its proactive role. USAID supported Citizens' Alliance for Justice (ACPJ) who conducted a citizen's audit of justice in Panama with funds leveraged from the United Nations Development Program (UNDP). The audit results and their dissemination will increase society's awareness and support for reform. Five prominent Panamanian NGOs participated in specific initiatives that foster transparency and accountability to reduce corruption. For example, the Panamanian Association of Business Executives (APEDE) conducted a study of the costs of corruption to the Panamanian economy. The study found that Panamanian businesses cite corruption as the number one impediment to new investment. Journalists and civil society activists, trained in investigative and reporting principles and techniques regarding corruption cases, started a network to apply the lessons learned through a journalist-civil society alliance. The Government of Panama adopted several constitutional amendments that limit the immunities enjoyed by high level officials and repealed the stultifying regulations governing the Transparency Law.

3. Community Development Assistance in Darien Province: Fifty-five small communities increased their capacity to engage in self-help development. The training provided a participatory process used in developing strategic plans, fostered community cohesiveness, and guided relationships between community residents and local authorities. Improvements in social infrastructure that include potable water systems, school rooms and a health center mitigate community vulnerability to external and internal conflicts. Communities increased their capacity to generate income through activities in handicrafts, agricultural production, eco-tourism micro-enterprises and tree nurseries. With community participation, USAID assisted in the development of small-scale productive infrastructure, such as road rehabilitation and the construction of rice mills, improving the conditions for generating income.

Gender: The USAID mission in Panama is aware of the impact that gender differences have on program results and vice versa. Following the Gender Analysis recommendations, the mission included in its training plan gender analysis, mainstreaming and monitoring, as a necessary step to ensure better understanding of gender issues and integration by USAID staff, implementing partners and the community-based groups. The mission plans to incorporate gender more effectively into activity designs and program implementation.

Results Framework

525-004 Panama Sustainably Manages the Canal Watershed and Buffer Areas

SO Level Indicator(s):

Water Quality Index

IR-4.1 Number of Demonstration Activities

IR-4.2 Park Management Index

525-005 Momentum Towards Fairer and Faster Justice System Established

SO Level Indicator(s):

Level of Completion of Alternative Dispute Resolution Pilot Projects

Total Score of Pre-Trial Pilot Projects Implemented

IR-5.1 Access to Justice in Targeted Areas Increased

IR-5.2 Proactive Role of Civil Society in Justice Sector Reform Improved

525-006 Selected Darien Communities Strengthened

SO Level Indicator(s):

Number of Beneficiaries in the Target Region Who Benefit from Access to Social and Productive Infrastructure

Number of Jointly Developed Proposals Approved

Percent of Community Members Who Express Satisfaction with Community Capacity to Respond to Local Problems

IR-6.1 Social Infrastructure in Selected Communities Improved

IR-6.2 Organizational Capacity of Local Governments and Community-based Organizations Strengthened

IR-6.3 Productive Infrastructure in Selected Communities Improved

525-021 Ruling Justly: More Responsive, Transparent Governance

SO Level Indicator(s):

Greater Citizen Satisfaction with the Honesty and Efficiency of Public Administration in Key Government entities

More Public Confidence in the Integrity of the Judiciary

IR 1.1 Strengthened Rule of Law

IR 1.2 Greater Transparency and Accountability

525-022 Economic Freedom: Open, Diversified, Expanding Economies

SO Level Indicator(s):

TBD in Performance Monitoring Plan

IR-2.1 Laws, Policies and Regulations that Promote Trade and Investment

IR-2.4 Improved Management and Conservation of Critical Watersheds

525-023 Investing in People: Healthier, Better-Educated People